

CITY OF FOREST CITY, IOWA

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2016

- Prepared By -

Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616-2036
Phone (641)257-4222

CITY OF FOREST CITY, IOWA

TABLE OF CONTENTS

| | | |
|---|------------------------|--------------------|
| <u>OFFICIALS</u> | | <u>PAGE</u> |
| | | 1 |
| <u>INDEPENDENT AUDITOR'S REPORT</u> | | 2-3 |
| <u>MANAGEMENT'S DISCUSSION AND ANALYSIS</u> | | 4-8 |
| <u>BASIC FINANCIAL STATEMENTS:</u> | | |
| | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Cash Basis Statement of Activities and Net Position. . . | A | 9-12 |
| Governmental Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and | | |
| Changes in Cash Balances | B | 13-14 |
| Reconciliation of the Statement of Cash Receipts, | | |
| Disbursements and Changes in Cash Balances to the | | |
| Cash Basis Statement of Activities and Net Position. . | C | 15 |
| Proprietary Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and | | |
| Changes in Cash Balances | D | 16-17 |
| Reconciliation of the Statement of Cash Receipts, | | |
| Disbursements and Changes in Cash Balances to the | | |
| Cash Basis Statement of Activities and Net Position. . | E | 18 |
| Notes to Financial Statements | | 19-31 |
| <u>OTHER INFORMATION:</u> | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and | | |
| Changes in Balances - Budget and Actual (Cash Basis) - All | | |
| Governmental Funds and Proprietary Funds | | 32-33 |
| Notes to Other Information - Budgetary Reporting | | 34 |
| Schedule of the City's Proportionate Share of the Net | | |
| Pension Liability. | | 35 |
| Schedule of City Contributions | | 36 |
| Notes to Other Information - Pension Liability | | 37 |
| <u>SUPPLEMENTARY INFORMATION:</u> | | |
| | <u>Schedule</u> | |
| Schedule of Cash Receipts, Disbursements and Changes in | | |
| Cash Balances - Nonmajor Governmental Funds | 1 | 38-39 |
| Schedule of Cash Receipts, Disbursements and Changes in | | |
| Cash Balances - Nonmajor Proprietary Funds | 2 | 40-41 |
| Schedule of Indebtedness | 3 | 42-43 |
| Bond and Note Maturities | 4 | 44-45 |
| Schedule of Receipts by Source and Disbursements by | | |
| Function - All Governmental Funds. | 5 | 46-47 |
| <u>INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER</u> | | |
| <u>FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS</u> | | |
| <u>BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN</u> | | |
| <u>ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</u> | | |
| | | 48-49 |
| <u>SCHEDULE OF FINDINGS.</u> | | 50-52 |

CITY OF FOREST CITY, IOWA

OFFICIALS

(Before January 2016)

| <u>NAME</u> | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|--------------------|----------------------------|----------------------------|
| Rick Skjeie | Mayor | January 2016 |
| Ronald Holland | Mayor Pro tem | January 2018 |
| Brad Buffington | Council Member (Appointed) | January 2016 |
| Jerome Clouse | Council Member | January 2016 |
| Steve Hall | Council Member | Resigned |
| Robert Kuefler | Council Member | January 2016 |
| Dennis Huling | Council Member | January 2018 |
| Anthony Mikes | Council Member | January 2018 |
| Jon West | Council Member | January 2018 |
| Malcolm Tilberg | City Administrator/Clerk | Indefinite |
| Steve Bakke | Attorney | Indefinite |

(After January 2016)

| <u>NAME</u> | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|--------------------|----------------------------|----------------------------|
| Byron Ruiter | Mayor | January 2020 |
| Ronald Holland | Mayor Pro tem | January 2018 |
| Anthony Mikes | Council Member | January 2018 |
| Jon West | Council Member | January 2018 |
| Dennis Zehren | Council Member (Appointed) | January 2018 |
| Brad Buffington | Council Member (Appointed) | January 2020 |
| Dan Davis | Council Member | January 2020 |
| Dennis Huling | Council Member | Resigned |
| Karl Wooldridge | Council Member | January 2020 |
| Malcolm Tilberg | City Administrator/Clerk | Resigned |
| Steve Bakke | Attorney | Indefinite |



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City as of June 30, 2016, and the respective changes in it's cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As discussed in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. My opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Forest City's basic financial statements. I previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2015 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 4 through 8 and 32 through 37, has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated December 12, 2016 on my consideration of the City of Forest City's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Forest City's internal control over financial reporting and compliance.



Charles City, Iowa
December 12, 2016

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Forest City provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2016. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2016 FINANCIAL HIGHLIGHTS

Receipts of the City's governmental activities increased 36.0%, or approximately \$2,405,000 from fiscal year 2015 to fiscal year 2016. Bond proceeds increased approximately \$3,536,000. Operating grants, contributions and restricted interest and capital grants, contributions and restricted interest decreased approximately \$948,000 and \$342,000, respectively.

Disbursements of the City's governmental activities decreased 1.5%, or approximately \$126,000, in fiscal year 2016 from fiscal year 2015. Debt service and community and economic development disbursements increased approximately \$2,242,000 and \$344,000, respectively, while public safety and public works disbursements decreased \$2,298,000 and \$528,000, respectively.

The City's total cash basis net position increased 7.2%, or approximately \$564,000 from June 30, 2015 to June 30, 2016. Of this amount, the cash basis net position of the governmental activities increased approximately \$1,015,000 and the cash basis net position of the business type activities decreased approximately \$451,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks, the sanitary sewer system, electric and storm sewer. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Tax Increment Financing, 3) the Debt Service Fund, 4) the Capital Projects Funds and 5) the Permanent Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds and the Internal Service Funds. Enterprise Funds are used to report business type activities. The City maintains several Enterprise Funds to provide separate information for the Water, Sewer Rental, Electric and Storm Sewer Funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$1,921,000 to approximately \$2,936,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

| | Year ended June 30, | |
|---|---------------------|-----------------|
| | 2016 | 2015 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 657 | \$ 654 |
| Operating grants, contributions and restricted interest | 1,023 | 1,971 |
| Capital grants, contributions and restricted interest | 226 | 568 |
| General receipts: | | |
| Property tax | 2,771 | 2,726 |
| Local option sales tax | 363 | 407 |
| Unrestricted interest on investments | 41 | 18 |
| Bond proceeds | 3,565 | 29 |
| Other general receipts | 432 | 300 |
| Total receipts | <u>\$ 9,078</u> | <u>\$ 6,673</u> |
| Disbursements: | | |
| Public safety | \$ 1,629 | \$ 3,927 |
| Public works | 1,349 | 1,877 |
| Health and social services | 17 | 17 |
| Culture and recreation | 819 | 800 |
| Community and economic development | 1,178 | 834 |
| General government | 303 | 269 |
| Debt service | 3,118 | 876 |
| Capital projects | 75 | 14 |
| Total disbursements | <u>\$ 8,488</u> | <u>\$ 8,614</u> |
| Change in cash basis net position before transfers | \$ 590 | \$ (1,941) |
| Transfers, net | <u>425</u> | <u>440</u> |
| Change in cash basis net position | \$ 1,015 | \$ (1,501) |
| Cash basis net position beginning of year | <u>1,921</u> | <u>3,422</u> |
| Cash basis net position end of year | <u>\$ 2,936</u> | <u>\$ 1,921</u> |

The City's total receipts for governmental activities increased 36.0%, or approximately \$2,405,000. The total cost of all programs and services decreased approximately \$126,000, or 1.5%, with no new programs added this year. The significant increase in receipts was primarily the result of bond proceeds received during the fiscal year.

The cost of all governmental activities this year was \$8,487,867 compared to \$8,614,676 last year. However, as shown in the Statement of Activities and Net Position on pages 9-12, the amount taxpayers ultimately financed for these activities was only \$6,581,594 because some of the cost was paid by those directly benefited from the programs (\$657,182) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$1,249,091). The City paid for the remaining "public benefit" portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2016 from approximately \$3,193,000 to approximately \$1,906,000 principally due to a decrease in operating grants, contributions and restricted interest due to the completion of the emergency service center project.

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

| | Year ended June 30, | |
|---|---------------------|-----------------|
| | 2016 | 2015 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 419 | \$ 434 |
| Sewer | 624 | 638 |
| Electric | 6,265 | 6,068 |
| Storm sewer | 137 | 137 |
| Capital grants, contributions and restricted interest | 7 | 25 |
| General receipts: | | |
| Unrestricted interest on investments | 12 | 18 |
| Bond proceeds | - | 2,334 |
| Other general receipts | 34 | 45 |
| Total receipts | <u>\$ 7,498</u> | <u>\$ 9,699</u> |
| Disbursements: | | |
| Water | \$ 404 | \$ 446 |
| Sewer | 652 | 654 |
| Electric | 6,396 | 9,532 |
| Storm sewer | 72 | 65 |
| Total disbursements | <u>\$ 7,524</u> | <u>\$10,697</u> |
| Change in cash basis net position before transfers | \$ (26) | \$ (998) |
| Transfers, net | <u>(425)</u> | <u>(440)</u> |
| Change in cash basis net position | \$ (451) | \$ (1,438) |
| Cash basis net position beginning of year | <u>5,940</u> | <u>7,378</u> |
| Cash basis net position end of year | <u>\$ 5,489</u> | <u>\$ 5,940</u> |

Total business type activities receipts for the fiscal year were approximately \$7,498,000 compared to approximately \$9,699,000 last year. This decrease was due primarily to revenue bond proceeds received in the prior year. The cash balance decreased by approximately \$451,000 from the prior year. Total disbursements for the fiscal year decreased by 29.7% to a total of approximately \$7,524,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Forest City completed the year, its governmental funds reported a combined fund balance of \$2,922,604, an increase of \$1,015,175 from last year's total of \$1,907,429. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance decreased \$987 from the prior year to \$1,433,835.

The Debt Service Fund cash balance increased \$43,643 to \$121,245 during the fiscal year. This increase was due to bond proceeds. Bond principal and interest payments increased \$2,242,154 in fiscal year 2016.

The Capital Projects, Street Improvement Fund increased \$873,242 from the prior year to \$875,813. The increase was due to a transfer in of \$948,720. The City intends to use these receipts to pay for the 2016 Street Project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Electric Fund cash balance decreased by \$373,482 to \$2,462,445 due to capital projects disbursements.

The Enterprise, Electric Capital Fund cash balance remained unchanged at \$1,200,000 due to no activity during the fiscal year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on June 16, 2016, and resulted in an increase in operating revenue of \$732,535, an increase in operating disbursements of \$2,965,000 and an increase in other financing sources of \$2,200,000. The City had sufficient cash balances to absorb these additional costs.

The City exceeded the amounts budgeted in the public safety, community and economic development, general government and debt service functions for the year ended June 30, 2016.

DEBT ADMINISTRATION

At June 30, 2016, the City had approximately \$7,409,000 in bonds and notes and other long-term debt outstanding, compared to approximately \$7,056,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)

| | June 30, | |
|--------------------------|-----------------|-----------------|
| | 2016 | 2015 |
| General obligation notes | \$ 5,030 | \$ 4,350 |
| Revenue bonds and notes | 2,315 | 2,625 |
| Capital leases | 14 | 21 |
| Real estate contract | 50 | 60 |
| Total | <u>\$ 7,409</u> | <u>\$ 7,056</u> |

Debt increased during the year as a result of issuing general obligation notes.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$5,093,690 is significantly below its constitutional debt limit of \$10,172,353. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Forest City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017 budget, tax rates and fees charged for various City activities. One of those factors is the economy.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Barbara Smith, City Administrator/Clerk, 305 North Clark Street, Forest City, Iowa 50436.

Basic Financial Statements

CITY OF FOREST CITY, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| FUNCTIONS/PROGRAMS: | Disbursements | Program Receipts | | |
|---------------------------------------|---------------------|---------------------------|--|--|
| | | Charges For Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Governmental activities: | | | | |
| Public safety | \$1,629,297 | \$ 24,211 | \$ 131,906 | \$ - |
| Public works | 1,348,719 | 480,356 | 512,978 | 226,058 |
| Health and social services | 17,253 | - | - | - |
| Culture and recreation | 818,601 | 72,526 | 23,199 | - |
| Community and economic development | 1,177,808 | - | 354,950 | - |
| General government | 302,858 | 14,587 | - | - |
| Debt service | 3,117,853 | 65,502 | - | - |
| Capital projects | 75,478 | - | - | - |
| Total governmental activities | <u>\$ 8,487,867</u> | <u>\$ 657,182</u> | <u>\$1,023,033</u> | <u>\$ 226,058</u> |
| Business type activities: | | | | |
| Water | \$ 403,528 | \$ 418,909 | \$ - | \$ - |
| Sewer | 652,161 | 623,832 | - | - |
| Electric | 6,396,511 | 6,265,054 | - | - |
| Storm sewer | 72,222 | 136,967 | - | 6,716 |
| Total business type activities | <u>\$ 7,524,422</u> | <u>\$7,444,762</u> | <u>\$ -</u> | <u>\$ 6,716</u> |
| Total | <u>\$16,012,289</u> | <u>\$8,101,944</u> | <u>\$1,023,033</u> | <u>\$ 232,774</u> |

(Continued)

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

| <u>Governmental Activities</u> | <u>Business Type Activities</u> | <u>Total</u> |
|---|--|-----------------------|
| \$ (1,473,180) | \$ - | \$ (1,473,180) |
| (129,327) | - | (129,327) |
| (17,253) | - | (17,253) |
| (722,876) | - | (722,876) |
| (822,858) | - | (822,858) |
| (288,271) | - | (288,271) |
| (3,052,351) | - | (3,052,351) |
| (75,478) | - | (75,478) |
| <u>\$ (6,581,594)</u> | <u>\$ -</u> | <u>\$ (6,581,594)</u> |
| \$ - | \$ 15,381 | \$ 15,381 |
| - | (28,329) | (28,329) |
| - | (131,457) | (131,457) |
| - | 71,461 | 71,461 |
| <u>-</u> | <u>71,461</u> | <u>71,461</u> |
| <u>\$ -</u> | <u>\$ (72,944)</u> | <u>\$ (72,944)</u> |
| <u>\$ (6,581,594)</u> | <u>\$ (72,944)</u> | <u>\$ (6,654,538)</u> |

CITY OF FOREST CITY, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

General Receipts and Transfers:

- Property and other city tax levied for:
 - General purposes
 - Debt service
- Tax increment financing
- Local option sales tax
- Unrestricted interest on investments
- Bond proceeds, net
- Miscellaneous
- Sale of capital assets
- Transfers

Total general receipts and transfers

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

Restricted:

Nonexpendable:

- Cemetery perpetual care
- Library trust

Expendable:

- Streets
- Debt service
- Other purposes

Unrestricted

Total cash basis net position

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

| Governmental Activities | Business Type Activities | Total |
|------------------------------------|-------------------------------------|----------------------------|
| \$ 1,591,862 | \$ - | \$ 1,591,862 |
| 626,757 | - | 626,757 |
| 551,912 | - | 551,912 |
| 362,580 | - | 362,580 |
| 41,305 | 12,600 | 53,905 |
| 3,565,167 | - | 3,565,167 |
| 375,389 | 34,271 | 409,660 |
| 56,400 | - | 56,400 |
| 425,400 | (425,400) | - |
| <u>\$ 7,596,772</u> | <u>\$ (378,529)</u> | <u>\$ 7,218,243</u> |
| \$ 1,015,178 | \$ (451,473) | \$ 563,705 |
| <u>1,920,721</u> | <u>5,940,188</u> | <u>7,860,909</u> |
| <u>\$ 2,935,899</u> | <u>\$ 5,488,715</u> | <u>\$ 8,424,614</u> |
| | | |
| \$ 47,579 | \$ - | \$ 47,579 |
| 98,000 | - | 98,000 |
| 167,694 | - | 167,694 |
| 121,245 | 570,000 | 691,245 |
| 383,227 | - | 383,227 |
| <u>2,118,154</u> | <u>4,918,715</u> | <u>7,036,869</u> |
| <u>\$ 2,935,899</u> | <u>\$ 5,488,715</u> | <u>\$ 8,424,614</u> |

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | <u>General</u> | <u>Debt Service</u> |
|---|----------------------------|--------------------------|
| RECEIPTS: | | |
| Property tax | \$ 1,114,861 | \$ 626,757 |
| Tax increment financing | - | - |
| Other city tax | - | - |
| Licenses and permits | 9,256 | - |
| Use of money and property | 18,816 | 24,890 |
| Intergovernmental | 377,964 | - |
| Charges for service | 557,217 | - |
| Special assessments | - | 65,502 |
| Miscellaneous | 327,007 | - |
| Total receipts | <u>\$ 2,405,121</u> | <u>\$ 717,149</u> |
| DISBURSEMENTS: | | |
| Operating: | | |
| Public safety | \$ 1,629,297 | \$ - |
| Public works | 1,348,719 | - |
| Health and social services | 17,253 | - |
| Culture and recreation | 807,320 | - |
| Community and economic development | 156,561 | - |
| General government | 302,858 | - |
| Debt service | - | 3,117,853 |
| Capital projects | - | - |
| Total disbursements | <u>\$ 4,262,008</u> | <u>\$ 3,117,853</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ (1,856,887)</u> | <u>\$ (2,400,704)</u> |
| Other financing sources (uses): | | |
| Bond proceeds | \$ - | \$ 3,576,000 |
| Bond premium/discounts | - | (10,833) |
| Sale of capital assets | 56,400 | - |
| Transfers in | 1,799,500 | 76,900 |
| Transfers out | - | (1,197,720) |
| Total other financing sources (uses) | <u>\$ 1,855,900</u> | <u>\$ 2,444,347</u> |
| Change in cash balances | \$ (987) | \$ 43,643 |
| Cash balances beginning of year | <u>1,434,822</u> | <u>77,602</u> |
| Cash balances end of year | <u>\$ 1,433,835</u> | <u>\$ 121,245</u> |
| Cash Basis Fund Balances: | | |
| Nonspendable | \$ - | \$ - |
| Restricted for: | | |
| Urban renewal purposes | - | - |
| Debt service | - | 121,245 |
| Streets | - | - |
| Other purposes | - | - |
| Assigned for: | | |
| Aquatic center | - | - |
| Streets | - | - |
| Park improvement | 167,619 | - |
| Unassigned | <u>1,266,216</u> | <u>-</u> |
| Total cash basis fund balances | <u>\$ 1,433,835</u> | <u>\$ 121,245</u> |

See Notes to Financial Statements.

| <u>Capital Projects Street Improvement</u> | <u>Nonmajor</u> | <u>Total</u> |
|--|--------------------------|----------------------------|
| \$ - | \$ 424,387 | \$ 2,166,005 |
| - | 551,912 | 551,912 |
| - | 415,194 | 415,194 |
| - | - | 9,256 |
| - | 459 | 44,165 |
| - | 871,127 | 1,249,091 |
| - | - | 557,217 |
| - | - | 65,502 |
| - | 70,726 | 397,733 |
| <u>\$ -</u> | <u>\$ 2,333,805</u> | <u>\$ 5,456,075</u> |
| | | |
| \$ - | \$ - | \$ 1,629,297 |
| - | - | 1,348,719 |
| - | - | 17,253 |
| - | 11,281 | 818,601 |
| - | 1,021,247 | 1,177,808 |
| - | - | 302,858 |
| - | - | 3,117,853 |
| 75,478 | - | 75,478 |
| <u>\$ 75,478</u> | <u>\$ 1,032,528</u> | <u>\$ 8,487,867</u> |
| | | |
| <u>\$ (75,478)</u> | <u>\$ 1,301,277</u> | <u>\$ (3,031,792)</u> |
| | | |
| \$ - | \$ - | \$ 3,576,000 |
| - | - | (10,833) |
| - | - | 56,400 |
| 948,720 | - | 2,825,120 |
| - | (1,202,000) | (2,399,720) |
| <u>\$ 948,720</u> | <u>\$ (1,202,000)</u> | <u>\$ 4,046,967</u> |
| \$ 873,242 | \$ 99,277 | \$ 1,015,175 |
| 2,571 | 392,434 | 1,907,429 |
| <u>\$ 875,813</u> | <u>\$ 491,711</u> | <u>\$ 2,922,604</u> |
| | | |
| \$ - | \$ 145,579 | \$ 145,579 |
| - | 146,289 | 146,289 |
| - | - | 121,245 |
| - | 167,694 | 167,694 |
| - | 236,938 | 236,938 |
| - | 4,151 | 4,151 |
| 875,813 | - | 875,813 |
| - | - | 167,619 |
| - | (208,940) | 1,057,276 |
| <u>\$ 875,813</u> | <u>\$ 491,711</u> | <u>\$ 2,922,604</u> |

CITY OF FOREST CITY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
 GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

Total governmental funds cash balances (page 14) \$ 2,922,604

*Amounts reported for governmental activities in the Cash Basis
 Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in governmental activities in the Cash Basis Statement of Activities and Net Position.

13,295

Cash basis net position of governmental activities (page 12) \$ 2,935,899

Change in cash balances (page 14) \$ 1,015,175

*Amounts reported for governmental activities in the Cash Basis
 Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

3

Change in cash basis net position of governmental activities
 (page 12) \$ 1,015,178

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | <u>Enterprise</u> | | |
|---|----------------------------|----------------------------|----------------------------|
| | <u>Electric</u> | <u>Electric Capital</u> | <u>Nonmajor</u> |
| Operating receipts: | | | |
| Charges for service | \$ 6,265,054 | \$ - | \$ 1,163,566 |
| Miscellaneous | - | - | 16,142 |
| Total operating receipts | <u>\$ 6,265,054</u> | <u>\$ -</u> | <u>\$ 1,179,708</u> |
| Operating disbursements: | | | |
| Business type activities | <u>5,233,254</u> | <u>-</u> | <u>999,418</u> |
| Excess of operating receipts over operating disbursements | <u>\$ 1,031,800</u> | <u>\$ -</u> | <u>\$ 180,290</u> |
| Non-operating receipts (disbursements): | | | |
| Intergovernmental | \$ - | \$ - | \$ 6,716 |
| Interest on investments | 8,114 | - | 4,486 |
| Rents | - | - | 9,408 |
| Miscellaneous | 24,861 | - | - |
| Debt service | (262,058) | - | (116,333) |
| Capital projects | <u>(901,199)</u> | <u>-</u> | <u>(12,160)</u> |
| Net non-operating receipts (disbursements) | <u>\$ (1,130,282)</u> | <u>\$ -</u> | <u>\$ (107,883)</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ (98,482)</u> | <u>\$ -</u> | <u>\$ 72,407</u> |
| Transfers out | <u>(275,000)</u> | <u>-</u> | <u>(150,400)</u> |
| Change in cash balances | <u>\$ (373,482)</u> | <u>\$ -</u> | <u>\$ (77,993)</u> |
| Cash balances beginning of year | <u>2,835,927</u> | <u>1,200,000</u> | <u>1,896,033</u> |
| Cash balances end of year | <u>\$ 2,462,445</u> | <u>\$ 1,200,000</u> | <u>\$ 1,818,040</u> |
| Cash Basis Fund Balances: | | | |
| Restricted for debt service | \$ - | \$ - | \$ 570,000 |
| Committed for: | | | |
| Water improvement | - | - | 50,000 |
| Sewer | - | - | 350,000 |
| Electric | - | 1,200,000 | 300,000 |
| Storm sewer | - | - | 198,908 |
| Unrestricted | <u>2,462,445</u> | <u>-</u> | <u>349,132</u> |
| Total cash basis fund balances | <u>\$ 2,462,445</u> | <u>\$ 1,200,000</u> | <u>\$ 1,818,040</u> |

See Notes to Financial Statements.

| | Internal Service | | |
|----------------------------|------------------------|-----------------------------|-------------------------|
| <u>Total</u> | <u>Clearing</u> | <u>Payroll Clearing</u> | <u>Total</u> |
| \$ 7,428,620 | \$ - | \$ - | \$ - |
| 16,142 | - | 3,311,963 | 3,311,963 |
| <u>\$ 7,444,762</u> | <u>\$ -</u> | <u>\$ 3,311,963</u> | <u>\$ 3,311,963</u> |
| 6,232,672 | - | - | - |
| \$ 1,212,090 | \$ - | \$ 3,311,963 | \$ 3,311,963 |
| \$ 6,716 | \$ - | \$ - | \$ - |
| 12,600 | - | - | - |
| 9,408 | - | - | - |
| 24,861 | - | (3,311,958) | (3,311,958) |
| (378,391) | - | - | - |
| (913,359) | - | - | - |
| <u>\$ (1,238,165)</u> | <u>\$ -</u> | <u>\$ (3,311,958)</u> | <u>\$ (3,311,958)</u> |
| \$ (26,075) | \$ - | \$ 5 | \$ 5 |
| (425,400) | - | - | - |
| \$ (451,475) | \$ - | \$ 5 | \$ 5 |
| 5,931,960 | 5,646 | 15,874 | 21,520 |
| <u>\$ 5,480,485</u> | <u>\$ 5,646</u> | <u>\$ 15,879</u> | <u>\$ 21,525</u> |
| \$ 570,000 | \$ - | \$ - | \$ - |
| 50,000 | - | - | - |
| 350,000 | - | - | - |
| 1,500,000 | - | - | - |
| 198,908 | - | - | - |
| <u>2,811,577</u> | <u>5,646</u> | <u>15,879</u> | <u>21,525</u> |
| <u>\$ 5,480,485</u> | <u>\$ 5,646</u> | <u>\$ 15,879</u> | <u>\$ 21,525</u> |

CITY OF FOREST CITY, IOWA
 RECONCILIATION OF THE STATEMENT OF CASH
 RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
 PROPRIETARY FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

Total enterprise funds cash balances (page 17) \$ 5,480,485

*Amounts reported for business type activities in the Cash Basis
 Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the cash balance of the Internal Service Fund is included in business type activities in the Cash Basis Statement of Activities and Net Position.

8,230

Cash basis net position of business type activities (page 12) \$ 5,488,715

Change in cash balances (page 17) \$ (451,475)

*Amounts reported for business type activities in the Cash Basis
 Statement of Activities and Net Position are different because:*

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. A portion of the change in the cash balance of the Internal Service Fund is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

2

Change in cash basis net position of business type activities
 (page 12) \$ (451,473)

See Notes to Financial Statements.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies

The City of Forest City is a political subdivision of the State of Iowa located in Winnebago and Hancock Counties. It was first incorporated August 20, 1878 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Forest City has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: North Iowa Area Council of Governments, Winnebago County Assessor's Conference Board, Hancock County Assessor's Conference Board and Winnebago County E-911 Board.

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Funds.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies - continued

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and proprietary funds are aggregated and reported as nonmajor governmental and proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects, Street Improvement Fund is utilized to account for the receipts and disbursements relating to street improvements.

The City reports the following major proprietary funds:

The Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric plant.

The Enterprise, Electric Capital Fund accounts for moneys reserved for future electric plant capital outlays.

The City also reports the following additional proprietary funds:

Internal Service Funds are utilized to account for clearing and payroll clearing accounts.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(1) Summary of Significant Accounting Policies - continued

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or are imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, community and economic development, general government and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2016 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(2) Cash and Pooled Investments - continued

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City has no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 72.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue bonds and notes are as follows:

| Year Ending June 30, | General Obligation Notes | | Revenue Bonds and Notes | | Total | |
|----------------------------|--------------------------|-------------------|-------------------------|-------------------|---------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2017 | \$ 755,000 | \$ 102,498 | \$ 320,000 | \$ 59,528 | \$ 1,075,000 | \$ 162,026 |
| 2018 | 755,000 | 93,512 | 330,000 | 51,228 | 1,085,000 | 144,740 |
| 2019 | 455,000 | 83,436 | 340,000 | 42,528 | 795,000 | 125,964 |
| 2020 | 455,000 | 75,313 | 350,000 | 33,473 | 805,000 | 108,786 |
| 2021 | 405,000 | 66,898 | 235,000 | 24,058 | 640,000 | 90,956 |
| 2022-2026 | 2,205,000 | 187,618 | 740,000 | 38,766 | 2,945,000 | 226,384 |
| Total | <u>\$5,030,000</u> | <u>\$ 609,275</u> | <u>\$ 2,315,000</u> | <u>\$ 249,581</u> | <u>\$ 7,345,000</u> | <u>\$ 858,856</u> |

Revenue Bonds and Notes

The City has pledged future sewer customer receipts, net of specified operating disbursement, to repay \$1,030,000 in sewer revenue notes issued in May 2008. Proceeds from the notes provided financing for constructing improvements and extensions to the municipal sewer utility. The notes are payable solely from storm sewer customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$474,525. For the current year, principal and interest paid and total customer net receipts were \$115,833 and \$88,004, respectively.

The City has pledged future electric customer receipts, net of specified operating disbursement, to repay \$2,330,000 in electric revenue bonds issued in October 2014. Proceeds from the bonds provided financing for constructing improvements to the municipal electric plant. The bonds are payable solely from electric customer net receipts and are payable through 2024. Annual principal and interest payments on the bonds are expected to require less than 75 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$2,090,056. For the current year, principal and interest paid and total customer net receipts were \$261,556 and \$1,031,800, respectively.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(3) Bonds and Notes Payable - continued

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions:

- a) At the option of the City, electric revenue bonds maturing after June 1, 2021 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- b) At the option of the City, sewer revenue notes maturing after June 1, 2017 may be called for redemption and paid before maturity on said date or any date thereafter, from any funds regardless of source, in whole or from time to time in part, in any order of maturity and within an annual maturity by lot. The terms of redemption shall be par plus accrued interest to date of call.
- c) The bonds and notes will only be redeemed from the future earnings of the enterprise activities and bond holders hold a lien on the future earnings of the funds.
- d) Sufficient monthly transfers shall be made to separate electric and sewer revenue bond sinking accounts for the purpose of making the bond principal and interest payments when due.
- e) A transfer shall be made from the bond proceeds to the electric revenue bond reserve account and the sewer revenue reserve account in an amount equal to the principal and interest payments for the fiscal year. The reserve accounts are restricted for the purpose of paying principal and interest due on the revenue bonds when insufficient money is available in the revenue bond sinking account.
- f) Additional monthly transfers shall be made to an electric revenue improvement account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for note and interest payments which the other funds might be unable to make.

Real Estate Contract

On February 11, 2011, the City of Forest City acquired the local 18 hole golf course known as Bear Creek Run Golf Club for \$250,000. The terms of the purchase were \$150,000 down payment with the balance of \$100,000 payable in annual installments of \$10,000 per annum. These payments are then assigned to Bear Creek Run Golf Club, Inc. for purposes of management of the golf course. The golf course contract is non-interest bearing with the final payment due February 11, 2021. The contract balance at June 30, 2016 was \$50,000.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by the Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive, P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan - continued

IPERS benefits are established under Iowa Code Chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits - A Regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, any time after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier based on years of service.
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month the member receives benefits before the member's earliest normal retirement age. For service earned on or after July 1, 2012, the reduction is 0.50% for each month the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) **Pension Plan** - continued

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. State statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2016, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2016 totaled \$213,846.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions - At June 30, 2016, the City reported a liability of \$1,134,829 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2015 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2015, the City's proportion was 0.214477%, which was a decrease of 0.001799% from its proportion measured as of June 30, 2014.

For the year ended June 30, 2016, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$124,770, \$359,604 and \$392,856, respectively.

There were no non-employer contributing entities to IPERS.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan - continued

Actuarial Assumptions - The total pension liability in the June 30, 2015 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

| | |
|--|--|
| Rate of inflation (effective June 30, 2014) | 3.00% per annum. |
| Rates of salary increase (effective June 30, 2010) | 4.00 to 17.00% average, including inflation. Rates vary by membership group. |
| Long-term investment rate of return (effective June 30, 1996) | 7.50% compounded annually, net of investment expense, including inflation. |
| Wage growth (effective June 30, 1990) | 4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation. |

The actuarial assumptions used in the June 30, 2015 valuation were based on the results of an actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

| <u>Asset Class</u> | <u>Asset Allocation</u> | <u>Long-Term Expected Real Rate of Return</u> |
|------------------------|-------------------------|---|
| Core plus fixed income | 28% | 2.04% |
| Domestic equity | 24 | 6.29 |
| International equity | 16 | 6.75 |
| Private equity/debt | 11 | 11.32 |
| Real estate | 8 | 3.48 |
| Credit opportunities | 5 | 3.63 |
| U.S. TIPS | 5 | 1.91 |
| Other real assets | 2 | 6.24 |
| Cash | <u>1</u> | (0.71) |
| Total | <u>100%</u> | |

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(4) Pension Plan - continued

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed employee contributions will be made at the contractually required rate and contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payments to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

| | 1% Decrease (6.50%) | Discount Rate (7.50%) | 1% Increase (8.50%) |
|--|---------------------------|-----------------------------|---------------------------|
| City's proportionate share of the net pension liability | \$2,371,846 | \$1,134,829 | \$ 91,187 |

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits and dental insurance for employees, retirees and their spouses. There are 43 active and 1 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$688 for single coverage and \$1,253 for family coverage. For the year ended June 30, 2016, the City contributed \$408,689 and plan members eligible for benefits contributed \$42,135 to the plan.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp and personal leave hours for subsequent use or for payment upon termination, retirement or death at rates dependent on years of service. However, sick leave may be accumulated but is forfeited if not used. Certain employees are allowed to accumulate vested compensatory time off for overtime at one and one-half times the hours worked. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, comp and personal leave payable to employees at June 30, 2016, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|------------------|
| Vacation | \$199,428 |
| Compensatory time | 42,278 |
| Personal | 5,480 |
| Total | <u>\$247,186</u> |

This liability has been computed based on rates of pay in effect at June 30, 2016.

(7) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(8) Economic Development

On February 13, 2009, the City loaned \$15,000 to Pilates by Ginnie. The loan proceeds were used to start up and operate a business in Forest City. The loan bears interest at 3%. Pilates by Ginnie is obligated to repay the City in annual installments of \$3,000 plus interest beginning February 1, 2012. During the year ended June 30, 2016, the loan balance was paid off.

On July 1, 2009, the City loaned \$15,000 to Hansen Hardware. The loan proceeds were used to operate a hardware business in Forest City. The loan bears interest at 3%. Hansen Hardware is obligated to repay the City in monthly installments of \$270 beginning July 1, 2011. The loan balance at June 30, 2016 was \$5,125.

On July 1, 2009, the City loaned \$15,000 to Tora Buffington. The loan proceeds were used to start up and operate a book store in Forest City. The loan bears interest at 3%. Tora Buffington is obligated to repay the City in monthly installments of \$270 beginning July 1, 2011. The loan balance at June 30, 2016 was \$6,991.

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(8) Economic Development - continued

On May 1, 2010, the City loaned \$15,000 to Standard Exchange. The loan proceeds were used to start up and operate a business in Forest City. The loan bears interest at 3%. Standard Exchange is obligated to repay the City in monthly installments of \$270 beginning July 1, 2012. The loan balance at June 30, 2016 was \$13,010.

On July 1, 2009, the City loaned \$15,000 to Scoopy Doos Ice Cream and More. The loan proceeds were used to start up and operate an ice cream business in Forest City. The loan bears interest at 3%. Scoopy Doos Ice Cream and More is obligated to repay the City in monthly installments of \$270 beginning July 1, 2012. The loan balance at June 30, 2016 was \$3,106.

On September 15, 2010, the City loaned \$15,000 to Digitallic. The loan proceeds were used to start up and operate a photo processing and sales store in Forest City. The loan bears interest at 3%. Digitallic is obligated to repay the City in monthly installments of \$270 beginning October 1, 2012. During the year ended June 30, 2016, the loan balance was paid off.

On February 23, 2011, the City loaned \$15,000 to Rockledge Holdings. The loan proceeds were used to improve a downtown commercial building in Forest City. The loan bears interest at 3%. Rockledge Holdings is obligated to repay the City in monthly installments of \$270 beginning July 1, 2013. The loan was paid off during the year ended June 30, 2016.

(9) Forgivable Loan

On August 31, 2004, the City loaned \$52,000 to CDI, Inc. The loan proceeds were used to operate a painting facility in Forest City. The amount loaned by the City is forgivable and had a balance of \$52,000 at June 30, 2016.

(10) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2016 is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|------------------------|--------------------|
| General | Special Revenue: | |
| | Road Use Tax | \$ 415,000 |
| | Employee Benefits | 420,000 |
| | Local Option Sales Tax | 367,000 |
| | | <u>\$1,202,000</u> |
| | Debt Service | <u>\$ 249,000</u> |
| | Enterprise: | |
| | Sewer Rental | \$ 68,500 |
| | Electric | 275,000 |
| | Storm Sewer | 5,000 |
| | | <u>\$ 348,500</u> |

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(10) Interfund Transfers - continued

| | | |
|--------------------|--------------|--------------------|
| Capital Projects: | | |
| Street improvement | Debt Service | \$ 948,720 |
| | | |
| Debt Service | Enterprise: | |
| | Water | \$ 15,000 |
| | Storm Sewer | 61,900 |
| | | <u>\$ 76,900</u> |
| | | |
| Total | | <u>\$2,825,120</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(11) Related Party Transactions

The City had business transactions between the City and City officials totaling \$2,956 during the year ended June 30, 2016.

(12) Deficit Balance

The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$204,375 at June 30, 2016. The deficit will be eliminated upon receipt of property taxes.

(13) Golf Course Management Agreement

On February 11, 2011, the City entered into a management agreement with Bear Creek Run Golf Club, Inc. (Manager) for the purpose of managing the City owned 18 hole golf course. This ten year agreement that runs through March 31, 2021 stipulates that the Manager has the exclusive privilege and obligation to operate the Golf Course, including, but not limited to, maintenance, memberships, cart rentals, restaurant and banquet facilities, merchandise and special events. The City receives no payment for this agreement.

(14) Commitments

At June 30, 2016, the following construction commitments had been made:

| <u>Project</u> | <u>Total Contract</u> | <u>Costs Incurred to Date</u> |
|---------------------|---------------------------|---------------------------------------|
| Apron Expansion | \$ 488,727 | \$ 470,224 |
| 2015 Runway | 208,587 | 198,234 |
| Storm Sewer Outlet | 42,500 | 40,375 |
| 2016 Street Project | <u>530,981</u> | <u>-</u> |
| Total | <u>\$1,270,795</u> | <u>\$ 708,833</u> |

CITY OF FOREST CITY, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

(15) **Capital Lease**

The City leases equipment on a capital lease basis. The following is a schedule, by years, of future payments required under the lease:

| <u>Year ended June 30,</u> | |
|--|------------------|
| 2017 | \$ 7,266 |
| 2018 | <u>7,266</u> |
| Total minimum lease payments | \$ 14,532 |
| Amounts representing interest | <u>842</u> |
| Present value of net minimum lease payments | <u>\$ 13,690</u> |

(16) **Litigation**

The City is involved in a discrimination claim. The probability of loss, if any, is undeterminable.

(17) **Subsequent Events**

On August 15, 2016, the City approved the contract with Data Tech in the amount of \$41,135 for software system updates. Also, the City awarded the 2016 Intake Repair and Street Maintenance Project contract to Grove Contracting & Sales in the amount of \$28,247.

The City approved the contract and bond for the Wastewater Plant RBC Aeration Project in the amount of \$136,057.

On October 10, 2016, the City authorized the issuance of a General Obligation Urban Renewal Loan Agreement not to exceed \$751,000.

Other Information

CITY OF FOREST CITY, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2016

| | Governmental Funds Actual | Proprietary Funds Actual | Less Funds Not Required To Be Budgeted |
|---|---------------------------------|--------------------------------|--|
| RECEIPTS: | | | |
| Property tax | \$ 2,166,005 | \$ - | \$ - |
| Tax increment financing | 551,912 | - | - |
| Other city tax | 415,194 | - | - |
| Licenses and permits | 9,256 | - | - |
| Use of money and property | 44,165 | 22,008 | - |
| Intergovernmental | 1,249,091 | 6,716 | - |
| Charges for service | 557,217 | 7,444,762 | - |
| Special assessments | 65,502 | - | - |
| Miscellaneous | 397,733 | 3,336,824 | 3,311,963 |
| Total receipts | <u>\$ 5,456,075</u> | <u>\$10,810,310</u> | <u>\$ 3,311,963</u> |
| DISBURSEMENTS: | | | |
| Public safety | \$ 1,629,297 | \$ - | \$ - |
| Public works | 1,348,719 | - | - |
| Health and social services | 17,253 | - | - |
| Culture and recreation | 818,601 | - | - |
| Community and economic development | 1,177,808 | - | - |
| General government | 302,858 | - | - |
| Debt service | 3,117,853 | - | - |
| Capital projects | 75,478 | - | - |
| Business type activities | - | 10,836,380 | 3,311,958 |
| Total disbursements | <u>\$ 8,487,867</u> | <u>\$10,836,380</u> | <u>\$ 3,311,958</u> |
| Excess (deficiency) of receipts over (under) disbursements | \$ (3,031,792) | \$ (26,070) | \$ 5 |
| Other financing sources, net | <u>4,046,967</u> | <u>(425,400)</u> | <u>-</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | \$ 1,015,175 | \$ (451,470) | \$ 5 |
| Balances beginning of year | <u>1,907,429</u> | <u>5,953,480</u> | <u>21,520</u> |
| Balances end of year | <u>\$ 2,922,604</u> | <u>\$ 5,502,010</u> | <u>\$ 21,525</u> |

See Accompanying Independent Auditor's Report.

| <u>Total</u> | <u>Budgeted Amounts</u> | | <u>Final to Total Variance</u> |
|----------------------------|----------------------------|----------------------------|--|
| | <u>Original</u> | <u>Final</u> | |
| \$ 2,166,005 | \$ 2,062,615 | \$ 2,062,615 | \$ 103,390 |
| 551,912 | 524,274 | 524,274 | 27,638 |
| 415,194 | 421,199 | 420,868 | (5,674) |
| 9,256 | 5,800 | 10,800 | (1,544) |
| 66,173 | 41,453 | 46,453 | 19,720 |
| 1,255,807 | 763,880 | 1,387,321 | (131,514) |
| 8,001,979 | 8,185,360 | 8,185,360 | (183,381) |
| 65,502 | 55,000 | 55,000 | 10,502 |
| 422,594 | 54,409 | 151,944 | 270,650 |
| <u>\$12,954,422</u> | <u>\$12,113,990</u> | <u>\$12,844,635</u> | <u>\$ 109,787</u> |
| | | | |
| \$ 1,629,297 | \$ 1,239,672 | \$ 1,539,672 | \$ (89,625) |
| 1,348,719 | 1,210,670 | 1,350,670 | 1,951 |
| 17,253 | 17,700 | 17,700 | 447 |
| 818,601 | 716,641 | 876,641 | 58,040 |
| 1,177,808 | 383,200 | 483,200 | (694,608) |
| 302,858 | 261,935 | 301,935 | (923) |
| 3,117,853 | 731,973 | 1,831,973 | (1,285,880) |
| 75,478 | - | 700,000 | 624,522 |
| 7,524,422 | 8,107,008 | 8,532,008 | 1,007,586 |
| <u>\$16,012,289</u> | <u>\$12,668,799</u> | <u>\$15,633,799</u> | <u>\$ (378,490)</u> |
| | | | |
| \$ (3,057,867) | \$ (554,809) | \$ (2,789,164) | \$ (268,703) |
| | | | |
| <u>3,621,567</u> | <u>40,715</u> | <u>2,240,715</u> | <u>1,380,852</u> |
| | | | |
| \$ 563,700 | \$ (514,094) | \$ (548,449) | \$ 1,112,149 |
| | | | |
| <u>7,839,389</u> | <u>6,737,204</u> | <u>6,737,204</u> | <u>1,102,185</u> |
| | | | |
| <u>\$ 8,403,089</u> | <u>\$ 6,223,110</u> | <u>\$ 6,188,755</u> | <u>\$ 2,214,334</u> |

CITY OF FOREST CITY, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2016

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,965,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2016, disbursements exceeded the amounts budgeted in the public safety, community and economic development, general government and debt service functions.

CITY OF FOREST CITY, IOWA
SCHEDULE OF THE CITY'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO YEARS * (IN THOUSANDS)

OTHER INFORMATION

| | <u>2016</u> | <u>2015</u> |
|---|-------------|-------------|
| City's proportion of the net pension liability | 0.214477% | 0.216269% |
| City's proportionate share of the net pension liability | \$ 1,135 | \$ 833 |
| City's covered-employee payroll | \$ 2,330 | \$ 2,310 |
| City's proportionate share of the net pension liability as a percentage of its covered-employee payroll | 48.71% | 36.06% |
| IPERS' net position as a percentage of the total pension liability | 85.19% | 87.61% |

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceding fiscal year.

See Accompanying Independent Auditor's Report.

CITY OF FOREST CITY, IOWA
SCHEDULE OF CITY CONTRIBUTIONS

IOWA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
FOR THE LAST TWO YEARS (IN THOUSANDS)

OTHER INFORMATION

| | <u>2016</u> | <u>2015</u> |
|---|--------------|--------------|
| Statutorily required contribution | \$ 214 | \$ 214 |
| Contributions in relation to the statutorily required contribution | <u>(214)</u> | <u>(214)</u> |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> |
| City's covered-employee payroll | \$ 2,330 | \$ 2,310 |
| Contributions as a percentage of covered-employee payroll | 9.18% | 9.26% |

See Accompanying Independent Auditor's Report.

CITY OF FOREST CITY, IOWA
NOTES TO OTHER INFORMATION - PENSION LIABILITY
YEAR ENDED JUNE 30, 2016

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups - emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers - from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate in the calculation of the UAL amortization payments.

Supplementary Information

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | Special | | | | |
|--|--|--------------------------|------------------------------|---------------------------------------|--------------------------------|
| | Tax Increment Financing | Road Use Tax | Employee Benefits | Local Option Sales Tax | Hotel Motel Tax |
| RECEIPTS: | | | | | |
| Property tax | \$ - | \$ - | \$ 424,387 | \$ - | \$ - |
| Tax increment financing | 551,912 | - | - | - | - |
| Other city tax | - | - | - | 362,580 | 52,614 |
| Use of money and property | - | - | - | - | - |
| Intergovernmental | - | 512,978 | - | - | - |
| Miscellaneous | - | - | - | - | - |
| Total receipts | <u>\$ 551,912</u> | <u>\$ 512,978</u> | <u>\$ 424,387</u> | <u>\$ 362,580</u> | <u>\$ 52,614</u> |
| DISBURSEMENTS: | | | | | |
| Culture and recreation | \$ - | \$ - | \$ - | \$ - | \$ - |
| Community and economic development | 378,463 | - | - | 10,000 | - |
| Total disbursements | <u>\$ 378,463</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 10,000</u> | <u>\$ 50,158</u> |
| Excess (deficiency) of receipts over (under) disbursements | \$ 173,449 | \$ 512,978 | \$ 424,387 | \$ 352,580 | \$ 2,456 |
| Transfers out | - | (415,000) | (420,000) | (367,000) | - |
| Change in cash balances | \$ 173,449 | \$ 97,978 | \$ 4,387 | \$ (14,420) | \$ 2,456 |
| Cash balances beginning of year | (377,824) | 69,716 | 38,538 | 115,579 | 28,578 |
| Cash balances end of year | <u>\$(204,375)</u> | <u>\$ 167,694</u> | <u>\$ 42,925</u> | <u>\$ 101,159</u> | <u>\$ 31,034</u> |
| Cash Basis Fund Balances: | | | | | |
| Nonspendable | \$ - | \$ - | \$ - | \$ - | \$ - |
| Restricted for other purpose | - | 167,694 | 42,925 | 101,159 | 31,034 |
| Assigned for aquatic center | - | - | - | - | - |
| Unassigned | (204,375) | - | - | - | - |
| Total cash basis fund balances | <u>\$(204,375)</u> | <u>\$ 167,694</u> | <u>\$ 42,925</u> | <u>\$ 101,159</u> | <u>\$ 31,034</u> |

See Accompanying Independent Auditor's Report.

| Revenue | | | Capital Projects | Permanent | | Total |
|----------------------------|-------------------------|------------------------|------------------------|-------------------------------|-------------------------|--------------------------|
| Low- Moderate Income | ED/RLF | CDBG | Aquatic Center | Cemetery Perpetual Care | Library Trust | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 424,387 |
| - | - | - | - | - | - | 551,912 |
| - | - | - | - | - | - | 415,194 |
| - | - | - | - | - | 459 | 459 |
| - | - | 354,950 | - | - | 3,199 | 871,127 |
| - | - | 70,026 | - | 700 | - | 70,726 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 424,976</u> | <u>\$ -</u> | <u>\$ 700</u> | <u>\$ 3,658</u> | <u>\$ 2,333,805</u> |
| | | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ - | \$ 11,281 | \$ 11,281 |
| - | - | 582,626 | - | - | - | 1,021,247 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ 582,626</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 11,281</u> | <u>\$ 1,032,528</u> |
| | | | | | | |
| \$ - | \$ - | \$ (157,650) | \$ - | \$ 700 | \$ (7,623) | \$ 1,301,277 |
| - | - | - | - | - | - | (1,202,000) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ (157,650)</u> | <u>\$ -</u> | <u>\$ 700</u> | <u>\$ (7,623)</u> | <u>\$ 99,277</u> |
| | | | | | | |
| 146,289 | 52,500 | 166,970 | 4,151 | 46,879 | 101,058 | 392,434 |
| <u>\$146,289</u> | <u>\$ 52,500</u> | <u>\$ 9,320</u> | <u>\$ 4,151</u> | <u>\$ 47,579</u> | <u>\$ 93,435</u> | <u>\$ 491,711</u> |
| | | | | | | |
| \$ - | \$ - | \$ - | \$ - | \$ 47,579 | \$ 98,000 | \$ 145,579 |
| 146,289 | 52,500 | 9,320 | - | - | - | 550,921 |
| - | - | - | 4,151 | - | - | 4,151 |
| - | - | - | - | - | (4,565) | (208,940) |
| <u>\$146,289</u> | <u>\$ 52,500</u> | <u>\$ 9,320</u> | <u>\$ 4,151</u> | <u>\$ 47,579</u> | <u>\$ 93,435</u> | <u>\$ 491,711</u> |

CITY OF FOREST CITY, IOWA
SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

| | Enterprise | | | | |
|--|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | Water | Water Sinking | Water Improvement | Sewer Rental | Sewer Sinking |
| Operating receipts: | | | | | |
| Charges for service | \$411,861 | \$ - | \$ - | \$ 614,738 | \$ - |
| Miscellaneous | 7,048 | - | - | 9,094 | - |
| Total operating receipts | <u>\$418,909</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 623,832</u> | <u>\$ -</u> |
| Operating disbursements: | | | | | |
| Business type activities | <u>391,368</u> | <u>-</u> | <u>-</u> | <u>535,828</u> | <u>-</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | <u>\$ 27,541</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 88,004</u> | <u>\$ -</u> |
| Non-operating receipts (disbursements): | | | | | |
| Intergovernmental | \$ - | \$ - | \$ - | \$ - | \$ - |
| Interest on investments | 2,152 | - | - | 2,334 | - |
| Rents | 9,408 | - | - | - | - |
| Debt service | - | - | - | (116,333) | - |
| Capital projects | (12,160) | - | - | - | - |
| Net non-operating receipts (disbursements) | <u>\$ (600)</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (113,999)</u> | <u>\$ -</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>\$ 26,941</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (25,995)</u> | <u>\$ -</u> |
| Transfers out | <u>(15,000)</u> | <u>-</u> | <u>-</u> | <u>(68,500)</u> | <u>-</u> |
| Change in cash balances | <u>\$ 11,941</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ (94,495)</u> | <u>\$ -</u> |
| Cash balances beginning of year | <u>307,626</u> | <u>120,000</u> | <u>50,000</u> | <u>124,060</u> | <u>150,000</u> |
| Cash balances end of year | <u>\$319,567</u> | <u>\$120,000</u> | <u>\$ 50,000</u> | <u>\$ 29,565</u> | <u>\$150,000</u> |
| Cash Basis Fund Balances: | | | | | |
| Restricted for debt service | \$ - | \$120,000 | \$ - | \$ - | \$150,000 |
| Committed for: | | | | | |
| Water improvement | - | - | 50,000 | - | - |
| Sewer | - | - | - | - | - |
| Electric | - | - | - | - | - |
| Storm sewer | - | - | - | - | - |
| Unrestricted | <u>319,567</u> | <u>-</u> | <u>-</u> | <u>29,565</u> | <u>-</u> |
| Total cash basis fund balances | <u>\$319,567</u> | <u>\$120,000</u> | <u>\$ 50,000</u> | <u>\$ 29,565</u> | <u>\$150,000</u> |

See Accompanying Independent Auditor's Report.

| <u>Sewer Reserve</u> | <u>Electric Sinking</u> | <u>Electric Reserve</u> | <u>Storm Sewer</u> | <u>Total</u> |
|--------------------------|-----------------------------|-----------------------------|--------------------------|----------------------------|
| \$ - | \$ - | \$ - | \$ 136,967 | \$ 1,163,566 |
| - | - | - | - | 16,142 |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 136,967</u> | <u>\$ 1,179,708</u> |
| - | - | - | 72,222 | 999,418 |
| \$ - | \$ - | \$ - | \$ 64,745 | \$ 180,290 |
| \$ - | \$ - | \$ - | \$ 6,716 | \$ 6,716 |
| - | - | - | - | 4,486 |
| - | - | - | - | 9,408 |
| - | - | - | - | (116,333) |
| - | - | - | - | (12,160) |
| <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 6,716</u> | <u>\$ (107,883)</u> |
| \$ - | \$ - | \$ - | \$ 71,461 | \$ 72,407 |
| - | - | - | (66,900) | (150,400) |
| \$ - | \$ - | \$ - | \$ 4,561 | \$ (77,993) |
| 350,000 | 300,000 | 300,000 | 194,347 | 1,896,033 |
| <u>\$ 350,000</u> | <u>\$ 300,000</u> | <u>\$ 300,000</u> | <u>\$ 198,908</u> | <u>\$ 1,818,040</u> |
| \$ - | \$ 300,000 | \$ - | \$ - | \$ 570,000 |
| - | - | - | - | 50,000 |
| 350,000 | - | - | - | 350,000 |
| - | - | 300,000 | - | 300,000 |
| - | - | - | 198,908 | 198,908 |
| - | - | - | - | 349,132 |
| <u>\$ 350,000</u> | <u>\$ 300,000</u> | <u>\$ 300,000</u> | <u>\$ 198,908</u> | <u>\$ 1,818,040</u> |

CITY OF FOREST CITY, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2016

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|----------------------------------|--------------------------|-----------------------|---|
| General Obligation Notes: | | | |
| Essential Corporate Purpose | 12-01-06 | 3.65 - 4.40% | \$2,000,000 |
| Essential Corporate Purpose | 05-01-08 | 2.60 - 3.70 | 2,540,000 |
| Essential Corporate Purpose | 09-04-13 | 2.00 - 3.40 | 2,300,000 |
| Essential Corporate Purpose | 07-21-15 | 0.50 - 2.45 | 1,445,000 |
| Essential Corporate Purpose | 07-21-15 | 0.50 - 1.00 | 960,000 |
| Essential Corporate Purpose | 09-21-15 | 1.50 - 3.00 | 1,200,000 |
| Revenue Bonds and Notes: | | | |
| Sewer | 05-01-08 | 2.80 - 4.10% | \$1,030,000 |
| Electric | 10-01-14 | 2.00 - 2.65 | 2,330,000 |
| Capital Leases: | | | |
| Mower | 09-26-14 | 4.00% | \$ 27,402 |
| Real Estate Contract: | | | |
| Golf Course | 02-11-11 | 0.00% | \$ 100,000 |
| Total indebtedness | | | |

See Accompanying Independent Auditor's Report.

| <u>Balance Beginning of Year</u> | <u>Issued During Year</u> | <u>Redeemed During Year</u> | <u>Balance End of Year</u> | <u>Interest Paid</u> | <u>Interest Due and Unpaid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 1,360,000 | \$ - | \$1,360,000 | \$ - | \$ 56,766 | \$ - |
| 930,000 | - | 930,000 | - | 4,932 | - |
| 2,060,000 | - | 190,000 | 1,870,000 | 50,835 | - |
| - | 1,445,000 | 125,000 | 1,320,000 | 19,868 | - |
| - | 960,000 | 320,000 | 640,000 | 6,200 | - |
| - | 1,200,000 | - | 1,200,000 | 19,040 | - |
| <u>\$ 4,350,000</u> | <u>\$3,605,000</u> | <u>\$2,925,000</u> | <u>\$ 5,030,000</u> | <u>\$ 157,641</u> | <u>\$ -</u> |
| \$ 525,000 | \$ - | \$ 95,000 | \$ 430,000 | \$ 20,833 | \$ - |
| 2,100,000 | - | 215,000 | 1,885,000 | 46,556 | - |
| <u>\$ 2,625,000</u> | <u>\$ -</u> | <u>\$ 310,000</u> | <u>\$ 2,315,000</u> | <u>\$ 67,389</u> | <u>\$ -</u> |
| <u>\$ 20,136</u> | <u>\$ -</u> | <u>\$ 6,446</u> | <u>\$ 13,690</u> | <u>\$ 823</u> | <u>\$ -</u> |
| <u>\$ 60,000</u> | <u>\$ -</u> | <u>\$ 10,000</u> | <u>\$ 50,000</u> | <u>\$ -</u> | <u>\$ -</u> |
| <u>\$ 7,055,136</u> | <u>\$3,605,000</u> | <u>\$3,251,446</u> | <u>\$ 7,408,690</u> | <u>\$ 225,853</u> | <u>\$ -</u> |

CITY OF FOREST CITY, IOWA
BOND AND NOTE MATURITIES
JUNE 30, 2016

| Year Ending June 30, | G E N E R A L O B L I G A T I O N | | | |
|----------------------------|--|---------------------------|----------------------|---------------------------|
| | Essential | | Essential | |
| | Corporate Purpose | | Corporate Purpose | |
| | Issued September 4, 2013 | | Issued July 21, 2015 | |
| | Interest Rates | Amount | Interest Rates | Amount |
| 2017 | 2.00% | \$ 200,000 | 0.75% | \$ 125,000 |
| 2018 | 2.00 | 195,000 | 1.00 | 125,000 |
| 2019 | 2.00 | 210,000 | 1.25 | 130,000 |
| 2020 | 2.00 | 215,000 | 1.45 | 125,000 |
| 2021 | 2.30 | 160,000 | 1.60 | 125,000 |
| 2022 | 2.60 | 160,000 | 1.80 | 130,000 |
| 2023 | 2.75 | 170,000 | 2.00 | 135,000 |
| 2024 | 3.10 | 180,000 | 2.15 | 140,000 |
| 2025 | 3.20 | 190,000 | 2.30 | 140,000 |
| 2026 | 3.40 | 190,000 | 2.45 | 145,000 |
| Total | | <u>\$1,870,000</u> | | <u>\$1,320,000</u> |

| Year Ending June 30, | R E V E N U E B O N D S A N D N O T E S | | | | |
|----------------------------|---|------------|------------------------|-------------|-------------|
| | Sewer | | Electric | | |
| | Issued May 1, 2008 | | Issued October 1, 2015 | | |
| | Interest Rates | Amount | Interest Rates | Amount | Total |
| 2017 | 3.90% | \$ 100,000 | 2.00% | \$ 220,000 | \$ 320,000 |
| 2018 | 4.00 | 105,000 | 2.00 | 225,000 | 330,000 |
| 2019 | 4.05 | 110,000 | 2.00 | 230,000 | 340,000 |
| 2020 | 4.10 | 115,000 | 2.00 | 235,000 | 350,000 |
| 2021 | | — | 2.15 | 235,000 | 235,000 |
| 2022 | | — | 2.50 | 240,000 | 240,000 |
| 2023 | | — | 2.55 | 245,000 | 245,000 |
| 2024 | | — | 2.65 | 255,000 | 255,000 |
| Total | | \$ 430,000 | | \$1,885,000 | \$2,315,000 |

See Accompanying Independent Auditor's Report.

N O T E S

| Essential Corporate Purpose Issued July 21, 2015 | | Essential Corporate Purpose Issued September 21, 2015 | | Total |
|--|-------------------|---|--------------------|--------------------|
| Interest Rates | Amount | Interest Rates | Amount | |
| 0.75% | \$ 320,000 | 1.50% | \$ 110,000 | \$ 755,000 |
| 1.00 | 320,000 | 1.50 | 115,000 | 755,000 |
| - | - | 2.00 | 115,000 | 455,000 |
| - | - | 2.00 | 115,000 | 455,000 |
| - | - | 2.25 | 120,000 | 405,000 |
| - | - | 2.25 | 120,000 | 410,000 |
| - | - | 2.50 | 120,000 | 425,000 |
| - | - | 2.75 | 125,000 | 445,000 |
| - | - | 2.85 | 130,000 | 460,000 |
| - | - | 3.00 | 130,000 | 465,000 |
| | <u>\$ 640,000</u> | | <u>\$1,200,000</u> | <u>\$5,030,000</u> |

CITY OF FOREST CITY, IOWA
SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION -
ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

| | <u>2016</u> | <u>2015</u> | <u>2014</u> | <u>2013</u> |
|------------------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| Receipts: | | | | |
| Property tax | \$2,166,005 | \$2,273,373 | \$1,958,300 | \$1,926,282 |
| Tax increment financing | 551,912 | 402,674 | 504,054 | 511,596 |
| Other city tax | 415,194 | 456,982 | 425,235 | 418,410 |
| Licenses and permits | 9,256 | 8,915 | 9,982 | 7,395 |
| Use of money and property | 44,165 | 26,389 | 19,157 | 19,411 |
| Intergovernmental | 1,249,091 | 1,303,871 | 639,717 | 695,071 |
| Charges for service | 557,217 | 524,467 | 504,566 | 484,158 |
| Special assessments | 65,502 | 89,163 | 877,514 | 114,279 |
| Miscellaneous | 397,733 | 1,565,086 | 132,723 | 190,791 |
| Total | <u>\$5,456,075</u> | <u>\$6,650,920</u> | <u>\$5,071,248</u> | <u>\$4,367,393</u> |
| Disbursements: | | | | |
| Operating: | | | | |
| Public safety | \$1,629,297 | \$3,927,111 | \$1,513,973 | \$1,226,621 |
| Public works | 1,348,719 | 1,876,976 | 1,125,455 | 1,369,665 |
| Health and social services | 17,253 | 17,656 | 17,130 | 14,644 |
| Culture and recreation | 818,601 | 800,298 | 690,924 | 662,552 |
| Community and economic development | 1,177,808 | 833,984 | 617,488 | 702,580 |
| General government | 302,858 | 269,248 | 259,247 | 246,942 |
| Debt service | 3,117,853 | 875,699 | 729,224 | 628,876 |
| Capital projects | 75,478 | 13,704 | 8,661 | 15,332 |
| Total | <u>\$8,487,867</u> | <u>\$8,614,676</u> | <u>\$4,962,102</u> | <u>\$4,867,212</u> |

See Accompanying Independent Auditor's Report.

| <u>2012</u> | <u>2011</u> | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> |
|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|---------------------------|
| \$1,853,479 | \$1,803,228 | \$1,805,951 | \$1,723,729 | \$1,575,368 | \$1,354,261 |
| 529,341 | 354,685 | 293,081 | 226,794 | 213,873 | 245,779 |
| 400,659 | 385,194 | 345,447 | 423,960 | 335,532 | 346,408 |
| 7,670 | 8,122 | 6,359 | 8,221 | 9,830 | 8,190 |
| 23,259 | 32,614 | 64,016 | 167,755 | 287,930 | 328,316 |
| 700,411 | 1,199,910 | 998,243 | 1,365,712 | 726,167 | 1,074,161 |
| 497,937 | 494,186 | 459,376 | 444,825 | 465,544 | 398,769 |
| 153,610 | 99,990 | 33,748 | 43,505 | 44,453 | 37,233 |
| 485,805 | 233,085 | 308,069 | 503,153 | 491,381 | 837,448 |
| <u>\$4,652,171</u> | <u>\$4,611,014</u> | <u>\$4,314,290</u> | <u>\$4,907,654</u> | <u>\$4,150,078</u> | <u>\$4,630,565</u> |
| | | | | | |
| \$1,526,479 | \$1,076,840 | \$1,207,657 | \$1,048,450 | \$ 959,784 | \$ 989,741 |
| 1,306,080 | 1,262,928 | 1,107,648 | 1,828,065 | 952,563 | 1,232,196 |
| 17,037 | 17,622 | 17,234 | 20,614 | 17,052 | 44,693 |
| 722,427 | 851,228 | 701,727 | 605,461 | 607,439 | 879,860 |
| | | | | | |
| 371,083 | 1,069,562 | 1,154,998 | 359,948 | 443,449 | 519,873 |
| 225,828 | 228,016 | 236,969 | 209,378 | 205,652 | 190,579 |
| 628,974 | 627,831 | 625,551 | 571,188 | 488,804 | 325,790 |
| 10,051 | 114,216 | 1,552,282 | 749,167 | 2,752,128 | 127,089 |
| <u>\$4,807,959</u> | <u>\$5,248,243</u> | <u>\$6,604,066</u> | <u>\$5,392,271</u> | <u>\$6,426,871</u> | <u>\$4,309,821</u> |



Larry Pump, CPA
117 North Jackson Street
Charles City, IA 50616

E-mail: rlp@fiai.net

(641) 257-4222
or (641) 228-2812
Fax (641) 228-1513

INDEPENDENT AUDITOR'S REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Forest City, Iowa, as of and for the year ended June 30, 2016, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated December 12, 2016. My report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Forest City's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Forest City's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Forest City's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Forest City's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B) and (F) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in the accompanying Schedule of Findings as items (C), (D) and (E) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Forest City's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2016 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Forest City's Responses to the Findings

The City of Forest City's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Forest City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the results of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Forest City during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.



Charles City, Iowa
December 12, 2016

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2016

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Check Without Signature - Checks are prepared and signed by one individual, however, I noted one check with no signature.
- Recommendation - Checks should be prepared and the supporting documentation along with the check should be presented for signature.
- Response - We will do this.
- Conclusion - Response accepted.
- (B) Bank Signature Cards - I noted several bank signature cards that were not current.
- Recommendation - All bank authorized signature cards should be reviewed and updated. Only current City employees, board members or council members should be authorized signers.
- Response - We have updated all the signature cards per guidelines recommended.
- Conclusion - Response accepted.
- (C) Bank Reconciliations - Reconciliations of book balances to the bank accounts by fund were prepared during the audit period, however, the amounts from the software balance sheet did not agree with the reconciliations or the bank balances.
- Recommendation - To improve financial accountability and control, a monthly reconciliation by fund of the book and bank balances should be prepared by the City. Any differences should be investigated and resolved in a timely manner.
- Response - We will be more careful performing monthly reconciliations.
- Conclusion - Response accepted.
- (D) Check Processing - I noted a check that cleared the bank without a payee listed.
- Recommendation - All checks should be properly prepared and include the payee.
- Response - We will do this.
- Conclusion - Response accepted.

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2016

Findings Related to the Financial Statements: - continued

- (E) Post-dated Checks - I noted some checks that were not in date sequential order.
- Recommendation - The City should avoid the use of post-dating checks.
- Response - We will discontinue the use of post-dating checks in the future.
- Conclusion - Response accepted.
- (F) Posting of Financial Transactions - The receipt and disbursement entries for the General Obligation Refunding Notes were not recorded properly in the general ledger.
- Recommendation - Total receipts and disbursements should be recorded properly in the general ledger.
- Response - We will do this in the future.
- Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2016 exceeded the amounts budgeted in the public safety, community and economic development, general government and debt service functions. Chapter 384.18 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."
- The City's amended budget figures in "Total Budget as Certified or Last Amended" does not agree with the original budget in the other city taxes and intergovernmental revenues.
- Also, the amended budget was certified after May 31st.
- Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. Also, the City should ensure that budget amendment amounts are transferred correctly from the original to the amended budget and budgets should be certified prior to the due date.
- Response - The budget will be amended in the future, if applicable, in accordance with the Code of Iowa and the City will be more careful in copying budget figures.
- Conclusion - Response accepted.
- (2) Questionable Disbursements - No disbursements I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF FOREST CITY, IOWA
Schedule of Findings
Year Ended June 30, 2016

Other Findings Related to Required Statutory Reporting: - continued

- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| <u>Name, Title and Business Connection</u> | <u>Transaction Description</u> | <u>Amount</u> |
|--|------------------------------------|---------------|
| Tony Coloff, Cable TV Committee, Owner KIOW Radio Station | Advertising/legal publications | \$2,956 |

In accordance with Chapter 362.5(3)(j) of the Code of Iowa, the transaction with Tony Coloff may represent a conflict of interest since the total transaction was over \$1,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - We will do this.

Conclusion - Response accepted.

- (5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- (6) City Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds - No instances of non-compliance with the revenue bond resolutions were noted.
- (9) Urban Renewal Annual Report - The urban renewal annual report was properly approved and certified to the Iowa Department of Management on or before December 1.
- (10) Financial Condition - The Special Revenue, Tax Increment Financing Fund had a deficit balance of \$204,375 at June 30, 2016.

Recommendation - The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response - This account will be monitored in the future.

Conclusion - Response accepted.